

Audit Report

Huron Behavioral Health

October 1, 1999 – September 30, 2006



Office of Audit
Central Regional Office
January 2008



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT
400 S. PINE; LANSING, MI 48933

JANET OLSZEWSKI
DIRECTOR

January 16, 2008

Hank Weitenberner, Chairperson
Huron Behavioral Health
1108 S. VanDyke
Bad Axe, Michigan 48413
and
Ms. Suzanne Prich, Executive Director
Huron Behavioral Health
1108 S. VanDyke
Bad Axe, Michigan 48413
and
Ms. Janet Olszewski, Director
Department of Community Health
Capitol View Building – 7th Floor
Lansing, Michigan 48913

CERTIFIED MAIL
700224100001 11622041

Dear Mr. Weitenberner, Ms. Prich, and Ms. Olszewski:

This is the final report from the Michigan Department of Community Health (MDCH) limited-scope audit of Huron Behavioral Health for the period October 1, 1999 through September 30, 2006.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, a finding and recommendations; adjustment schedules; and the corrective action plan. The corrective action plan includes the agency's paraphrased response to the Preliminary Analysis, and the Office of Audit's response to those comments.

If the agency disagrees with the MDCH audit finding, the agency must use the appeal process specified in Attachment 9.3.2.1 of the agency's contract with MDCH. The adjustments presented in this final report are an adverse action as defined by MAC R 400.3401. If disputing the adverse action, the agency must submit a request for the Medicaid Provider Reviews and Hearings Process pursuant to MCL 400.1 et seq. and MAC R 400.3401, et seq. within 30 days of the receipt of this letter. Requests must identify the specific audit adjustments under dispute, explain the reasons for the disagreement, and state the dollar amounts involved. The request must also include any substantive documentary evidence to support the position. Requests must specifically identify whether the agency is seeking a preliminary conference, a bureau conference or an administrative hearing. If the agency does not appeal this adverse action within 30 days of receipt of this notice, this letter will constitute MDCH's Final Determination Notice according to MAC R 400.3405, and MDCH will implement the audit adjustments.

Mr. Weitenberner, Ms. Prich, Ms. Olszewski
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A request for the Medicaid Provider Reviews and Hearings Process must be sent within 30 days of receipt of this letter to:

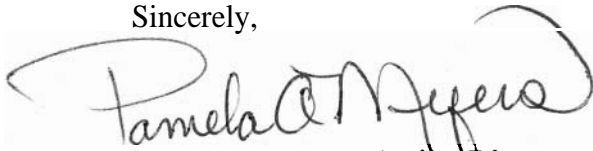
Administrative Tribunal & Appeals Division
Michigan Department of Community Health
1033 S. Washington
P.O. Box 30763
Lansing, Michigan 48909

For any audit finding and adjustment not in dispute, the agency must submit any resulting amounts due to MDCH within 30 days of receipt of this letter to:

Lisa Smyth, Manager
Revenue Operations Section
Bureau of Finance (Accounting Division)
Michigan Department of Community Health
P.O. Box 30437
Lansing, Michigan 48909

Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in dark ink, appearing to read "Pamela A. Myers". The signature is fluid and cursive, with a large loop at the beginning and end.

Pamela A. Myers, Acting Director
Office of Audit

PAM:wjb

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DESCRIPTION OF AGENCY

The Huron County Community Mental Health Authority, doing business as Huron Behavioral Health (HBH), was established by resolution of the Huron County Board of Commissioners in February 1971. HBH became an authority under the provisions of the Michigan Mental Health Code in August of 1997. Since 2003, HBH has been an affiliate member of the Access Alliance of Michigan Prepaid Inpatient Health Plan (AAMPIHP), a subsidiary of Bay-Arenac Behavioral Health. HBH operates under the provisions of the Mental Health Code, Sections 330.1001 – 330.2106 of the Michigan Compiled Laws.

HBH provides crisis intervention, short-term crisis residential, outpatient mental health, substance abuse/co-occurring disorders, case management, residential care, community living/skill building, Assertive Community Treatments, MICHild Waiver, Adult Benefit Waiver (ABW) and Omnibus Budget Reconciliation Act (OBRA) services to consumers within Huron County. Additionally, HBH contracts with independent agencies for vocational/employment and residential care services.

HBH's administrative office is located in the city of Bad Axe, within Huron County, Michigan. The board is comprised of 12 members who reside in Huron County and are appointed by the Huron County Board of Commissioners to three-year terms.

FUNDING METHODOLOGY

During our audit period HBH received reimbursement from several sources. From FYE 2000 through FYE 2002 HBH contracted with MDCH under a Managed Specialty Supports and Services Contract (MSSSC). MDCH provided HBH with both the State and Federal share of Medicaid funds as a capitated payment based on a Per Eligible Per Month (PEPM) methodology. MDCH also distributed the non-Medicaid full-year State Mental Health Funds (GF) based on a separate formula funding methodology included as an attachment to the contract.

Medicaid funding for services in Huron County was provided initially (FYE 2000 through FYE 2002) through direct contracts between MDCH and HBH, and subsequently (FYE 2003 through FYE 2006) through the HBH affiliation with a Bay-Arenac Behavior Health subsidiary, AAMPIHP. For FYE 2003 through FYE 2006 under the Medicaid Managed Specialty Supports and Services Contract (MMSSSC), MDCH provided funding to AAMPIHP with both the state and federal share of Medicaid funds as capitated payments based on a Per Eligible Per Month (PEPM) payment methodology. HBH received Medicaid payments through the MMSSSC via its affiliation with AAMPIHP.

HBH contracted with the MDCH under a Managed Mental Health Supports and Services Contract (MMHSSC) for FYE 2003 through FYE 2006. This contract provided State General Funds (GF) for mental health and developmental disability supports and services to individuals with serious mental illness, serious emotional disturbances or developmental disabilities as described in Section 208 of the Mental Health Code.

Other funding received separately outside of the MSSSC, MMSSSC, and MMHSSC from MDCH included special and/or designated funds, fee for services funds, Children's Waiver funds, MICHild capitated funds, and Adult Benefits Waiver (ABW) capitated funds. The special and/or designated funds were provided under special contractual arrangements between HBH and MDCH. The funding methodologies for these arrangements are specified in each agreement. MICHild is a non-Medicaid program designed to provide certain medical and mental health services for uninsured children of Michigan working families. MDCH also provided the funding for this program by capitated payments based on a Per Enrolled Child Per Month methodology for covered services. The ABW provides health care benefits for Michigan's childless adult residents with incomes at or below 35% of the Federal Poverty Level.

At the end of each fiscal year, once actual costs are known, the cost of providing the Medicaid and GF services are compared to the interim payments made for those services. If HBH was not able to provide the services within the capitation and formula funding

payments, then each contract determines the funding responsibility for the contracting parties. The contracts include provisions for redirects and risk funding. If HBH was able to provide the services at less cost than the amount paid through capitation and formula funding, then HBH was able to keep some or all of the savings provided they were used for certain contractual services in future years. Each contract specified the amounts that could be carried forward for future use and the allowable uses for the amounts saved by HBH.

Certain types of mental health expenditures require a match. This is referred to as local match dollars which must come from various HBH funding sources.

PURPOSE AND OBJECTIVES

The purpose of the review was to determine whether the agency properly reported Huron County building rent expenditures in FYE 2000 – FYE 2006 in accordance with State and Federal regulations, and contractual requirements; and to determine any necessary cost settlement adjustments resulting from the review of reported building rent expenditures.

Audit Objectives:

- 1.) To determine if the Huron County building rent reported to MDCH (or to AAMPIHP and subsequently to MDCH) by HBH for October 1, 1999 through September 30, 2006 was reasonable, allocable and otherwise allowable under the terms of State contracts and policies, and State and Federal regulations.
- 2.) To determine any necessary cost settlement adjustments for October 1, 1999 through September 30, 2006 resulting from the review of reported Huron County building rent expenditures.

SCOPE AND METHODOLOGY

We examined the HBH records and activities for the period October 1, 1999 through September 30, 2006 as they related to building costs and rental payments for Huron County building space. We also examined the Huron County Treasurer's records related to HBH building cost and the rent charged by Huron County from 1980 to fiscal year end 2006. We summarized and analyzed building cost expenditures to determine if they were properly supported and reported on the Financial Status Reports (FSR) in compliance with the contractual reporting requirements, applicable accounting standards and Federal regulations.

Once the allowable costs were identified, we recomputed the cost settlement for each year based on a comparison of allowable costs to the authorizations and revenues paid. We identified any additional Medicaid savings and General Fund Carryforward earned, reductions in local match requirements, reductions in HBH's risk share funding, reductions in MI Child and ABW program expenditures, and required lapses of funds to MDCH. We performed our audit procedures from March 2007 through June 2007.

CONCLUSIONS, FINDING AND RECOMMENDATIONS

Huron County Building Rent

Objective 1: To determine if the Huron County building rent reported to MDCH (or to AAMPIHP and subsequently to MDCH) by HBH for October 1, 1999 through September 30, 2006 was reasonable, allocable and otherwise allowable under the terms of State contracts and policies, and State and Federal regulations.

Conclusion: HBH overstated allowable Huron County building rent costs reported to MDCH (or to AAMPIHP and subsequently to MDCH) by \$612,985 for October 1, 1999 through September 30, 2006. We identified overcharges for a less-than-arms-length lease (Finding 1).

Finding

1. Overcharges for Less-Than-Arms-Length Lease

HBH reported rent paid to Huron County for their main office building under a less-than-arms length lease that exceeded underlying cost on the financial status reports (FSRs) for October 1, 1999 through September 30, 2006, which is not in compliance with OMB Circular A-87.

The Huron County building rent reported by HBH for their main office building on their FSRs for FYE 2000 through FYE 2006 was the amount of rent paid to Huron County. The rental payments reported were not entirely allowable because the lease between Huron County and HBH was less-than-arms-length and rental payments exceeded underlying cost. According to the cost principles specified in the contracts between HBH and MDCH, HBH is required to report rental payments *limited to the actual building costs* when there is a less-than-arms-length lease transaction.

Cost Principles. The contracts between MDCH and HBH specify that allowable costs would be determined, in part, by the provisions in OMB Circular A-87. Allowable rental costs are described in Attachment B, section 38, of the Circular effective in 1997, as follows:

...c. Rental cost under less-than-arms-length leases are allowable only up to the amount that would be allowed had title to the property vested in the governmental unit. For this purpose, less-than-arms-length leases include, but are not limited to, those where:

- (1) One party to the lease is able to control or substantially influence the actions of the other;*
- (2) Both parties are parts of the same governmental unit; or*
- (3) The governmental unit creates an authority or similar entity to acquire and lease the facilities to the governmental unit and other parties.*

A revised OMB Circular A-87 (published at 2 CFR Part 225) effective June 9, 2004 contained a similar provision in Attachment B, section 37:

...c. Rental costs under "less-than-arms-length" leases are allowable only up to the amount (as explained in Attachment B, section 37.b) that would be allowed had title to the property vested in the governmental unit. For this purpose, a less-than-arms-length lease is one under which one party to the lease agreement

is able to control or substantially influence the actions of the other. Such leases include, but are not limited to those between (i.) divisions of a governmental unit; (ii.) governmental units under common control through common officers, directors, or members; and (iii.) a governmental unit and a director, trustee, officer, or key employee of the governmental unit or his immediate family, either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest.

The section 37 b. referred to above states, in part:

...b. Rental costs...are allowable only up to the amount that would be allowed had the governmental unit continued to own the property. This amount would include expenses such as depreciation or use allowance, maintenance, taxes, and insurance...

Less-Than-Arms-Length Lease. The lease between Huron County and HBH was less-than-arms-length. The regulations cited above state that a less-than-arms-length lease exists when one party to the lease is able to control or substantially influence the actions of the other. Another indication of a less-than-arms-length lease is where both the building's owner and the renter are part of the same governmental unit.

The above situations exist between HBH (the renter) and Huron County (the building owner). The Huron County Board of Commissioners appoints the twelve-person HBH board, can remove the appointed members at will, can dissolve HBH, and provides annual appropriations to HBH. These powers clearly give Huron County the ability "to control or substantially influence" the actions of HBH, a primary condition in the regulatory definition of a less-than-arms-length lease.

According to OMB Circular A-87, a less-than-arms-length lease is further indicated when both parties to a lease are parts or divisions of the same governmental unit. Huron County reports HBH as one of their component units in the County's annual financial statements. HBH is part of Huron County's "financial reporting entity" since Huron County is "financially accountable" for HBH as defined by the Governmental Accounting Standards Board (GASB). According to GASB Statement No. 14, entities are "financially accountable" for legally separate organizations if its officials appoint a voting majority of an organization's governing body *and* either it is able to impose its

will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. Although legally separate entities, Huron County and HBH are part of the same governmental reporting entity under the GASB definitions.

Because the lease between HBH and Huron County is less-than-arms-length, Federal regulations incorporated into contracts with the MDCH require that the amount of rent reported under those contracts be limited to the actual building costs. Our analysis of the Huron County costs for the building's depreciation, maintenance and operation during our audit period identified \$612,985 less cost than the rent paid by HBH. These costs are unallowable.

Recommendations:

We recommend that HBH adopt policies and procedures to ensure that lease costs under less-than-arms-length lease transactions are reported to MDCH and AAMPIHP in accordance with OMB Circular A-87 provisions.

We recommend that HBH amend cost reports filed with MDCH and AAMPIHP subsequent to our audit period to reflect the lesser of actual building costs or rent payments for less-than-arms-length leases.

Cost Settlement Adjustments

Objective 2: To determine any necessary cost settlement adjustments for October 1, 1999 through September 30, 2006 resulting from the review of reported Huron County building rent expenditures.

Conclusion: As a result of the review of reported Huron County building rent expenditures and the identification of \$612,985 in unallowable expenditures for the period October 1, 1999 through September 30, 2006, HBH owes MDCH \$84,167 and

AAMPIHP must recognize \$443,229 in additional Medicaid Savings created as a result of the disallowed building costs.¹

A complete summary of the \$612,985 audit adjustment by fiscal year and the resulting impact is provided on the following page.

¹ According to Section 7.7.2.1 of the Medicaid contract, “In the event that a final MDCH audit report creates new Medicaid savings, the PIHP will have a year to expend those funds according to Section 7.7.2.2.

Audit Adjustment by Fiscal Year and Funding Source

Fiscal Year	Total Adjustment	Medicaid	General Fund	State Services	MI Child	ABW
99/00	\$58,504	\$50,266	\$8,238	\$0	\$0	\$0
00/01	66,400	55,946	10,454	0	0	0
01/02	66,213	54,884	11,329	0	0	0
02/03	65,707	54,348	11,281	13	65	0
03/04	109,061	83,368	23,688	1	60	1,944
04/05	123,594	99,646	20,225	0	59	3,664
05/06	123,506	102,494	19,429	0	176	1,407
Totals	\$612,985	\$500,952	\$104,644	\$14	\$360	\$7,015

Impact of Audit Adjustment

Fiscal Year	Total Adjustment	Medicaid Savings Increase	GF Carry-Forward Change	Lapse To MDCH	Local Match Decrease	Local Risk Decrease	MI Child Decrease	ABW Decrease
99/00	\$58,504	\$48,935	\$7,414	\$0	\$2,155	\$0	\$0	\$0
00/01	66,400	54,198	8,667	0	3,535	0	0	0
01/02	66,213	240	38,239	25,078	2,656	0	0	0
02/03	65,707	54,348	(54,320)	59,089	6,525	0	65	0
03/04	109,061	83,368	0	0	2,171	21,518	60	1,944
04/05	123,594	99,646	0	0	1,948	21,959	41	0
05/06	123,506	102,494	0	0	1,861	17,744	0	1,407
Totals	\$612,985	\$443,229	\$0	\$84,167	\$20,851	\$61,221	\$166	\$3,351

Corrective Action Plan

Finding Number: 1

Page Reference: 5

Finding: HBH reported rent paid to Huron County for their main office building under a less-than-arms length lease that exceeded underlying cost on the financial status reports (FSRs) for October 1, 1999 through September 30, 2006, which is not in compliance with OMB Circular A-87.

Recommendation: Adopt policies and procedures to ensure that lease costs under less-than-arms-length lease transactions are reported to MDCH and AAMPIHP in accordance with OMB Circular A-87 provisions.

Amend cost reports filed with MDCH and AAMPIHP subsequent to our audit period to reflect the lesser of actual building costs or rent payments for less-than-arms-length leases.

HBH Comments: Huron Behavioral Health and the County of Huron are not related parties and, therefore, the rent charged and paid to the County in exchange for use of the building are appropriate and legal.

Corrective Action: None

**Anticipated
Completion Date:** N/A

MDCH Response: HBH provided no detailed explanation for their disagreement or any supporting documentation to refute the audit finding and adjustment, and simply stated that Huron Behavioral Health and the County of Huron are not related parties and the rent charged was appropriate and legal. However, evidence exists that supports that the lease between Huron County and HBH was less-than-arms-length, and allowable rent expense is limited to the actual building costs. Therefore, rent paid by HBH in excess of actual building costs and charged to MDCH is unallowable.